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AMERICAN SECURITIES IN EUROPE

BY JAMES EDMUND DUNNING

I

IN the *Petit Parisien* for May 22d, 1911, there appeared the following paragraph:

"There will shortly be introduced on the Paris Bourse, both for cash and option dealings, the stock of the Atchison, Topeka & Santa Fé Railroad. This company, one of the most important in the United States, owns 11,000 miles of road, of which about 10,600 are being operated. The annual profits have risen in the last ten years from \$23,000,000 to \$35,000,000, and the dividend paid on the ordinary stock has gradually been raised from one and one-half per cent. to six per cent. last year."

Contained in the process by which permanent place abroad has been given such issues is the history of the greatest strokes of commercial and financial generalship in our times—and the creation of an unexpected practical force for the amity of nations and world-wide tranquillity.

The relation between expanding American industries and the money-supply of the continent of Europe is by no means one of mere bargain and sale. It represents the highest possible ideal of a union of understanding and interest for the benefit of the producer of capital, on the one hand, seeking a secure place and a reasonably profitable activity in which to put his savings, and on the other the active user of money requiring motive power for his works. It is one of the most striking illustrations of the way in which nations have drawn closer and closer together in the last half-century. It is "Reciprocity" in a most noteworthy form. It is a noble tribute to the financial genius of the age that there has been found a way to so increase the neighborliness of nations, their knowledge of and confidence in one another, and their means for maintaining constant and mutual touch, that the needs of one can be made to feed and sustain the

requirements of another under orderly systems and easily workable regulations, and with the nearly complete disappearance of that feeling of suspicion and distrust which in former days was sometimes encountered in international enterprises. Some of the strong peoples have grown, under this new impulse, to an intimacy of interest which stands far over average "alliances" in potency for general harmony and peace.

The mere exploitation by one nation of the resources of capital produced through the process of saving in another would not be a handsome spectacle. One does not know that it has ever been attempted, but not infrequently one hears some sarcastic reference to "Dollar Diplomacy" as if it were somehow an ungenerous and undignified thing to bring the best *material* interests of the four quarters of the earth into harmony and touch as a part of the age-long effort to similarly effect some reasonable concord in politics.

The peace-controlling power of extensive business connections was mentioned not long ago by the Right Hon. James Bryce, Ambassador to the United States from England (in a speech to the National Board of Trade in Washington), in these strong terms:

"But I do say, speaking of Europe and speaking of the rest of the world, that the existence of an active and increasing commerce is a very considerable additional security for peace between the great nations of the earth. It is also a great advantage even in minor cases."

The United States, as an expanding industrial member of the group of nations, and the American banker with his superior point of view and power of vision, have been most active in the practical development of a plan for a general interchange of interest and investment. American securities have sought foreign markets in order to procure funds for the development of our industries. A country like ours, where in this first decade of the century the capital invested in the manufacturing industries increased by one hundred per cent., and where, in the same period, the production of crude petroleum tripled and the cotton crop increased thirty-five per cent.; where the steel and iron product of the single Pittsburg district has risen to nearly \$200,000,000 annually; where the products manufactured in the district of New York alone amount each year to a total which is rapidly approaching the three-billion-dollar mark; and where, out of the tremendous total which is implied hereby, there is an

annual exportation to other countries of but about two billions of dollars—such a country must naturally concern itself with its financial relation to the other countries. Equally is it true that the United States, with a railway mileage which advanced in this first decade from 190,000 to 250,000 miles, a population which rose from 75,000,000 to 90,000,000, and wealth which increased from \$80,000,000,000 to nearly \$115,000,000,000, constitutes a foremost opportunity for the safe and profitable employment of the savings of other countries where there is less demand for working capital but a rigid insistence upon the security of invested earnings.

This need of a safe and active field of investment has been quite as great in certain other countries as the need of working capital has been in ours. There has been quite as much anxiety to seek the market as we have displayed in creating it. Much of the apprehension which may have arisen (and I do not think it very general) concerning our national attitude toward this situation has been derived from an ignorance of the banking business and the science of finance, not to mention lack of opportunity to view the facts at the shortest range. The same process goes on in miniature in every banking-house in every smallest city in the world. I well remember how a few years ago the French holders of certain short-time American railway notes besieged the Paris offices of a great bank and begged that they secure an extension of the notes in spite of the fact that the investment paid but three per cent. Money must have employment just as certainly as machinery and men must.

The American securities now quoted on the Paris Bourse are (June, 1911 : Cleveland, Cincinnati & St. Louis fours, due 1930, \$10,000,000; Chicago, Milwaukee & St. Paul fours, 1925, \$50,000,000; New York, New Haven & Hartford fours, 1922, \$29,000,000; Pennsylvania Railroad Company three and three-quarters, 1921, \$50,000,000; St. Louis & San Francisco fives, 1927, \$10,000,000; the same company's four and a half, 1940, \$5,000,000; Atchison, Topeka & Santa Fé Railway Company common stock, 200,000 shares of \$100 each, \$20,000,000; Philadelphia Company common stock, 200,000 shares of \$50 each, \$10,000,000.

On the *Coulisse* (or curb market) there are handled the following: U. S. Worsteds Preferred, 30,000 shares; U. S. Rubber First Preferred, 50,000 shares; Virginia-Carolina Company Common, 75,000 shares; and Utah Copper, 300,000

shares, all of \$10 each. The total is thus slightly under \$200,000,000.

II

France leads the world in the annual comparative volume of her savings, which amount to about \$400,000,000. Italy, with a population considerably smaller, exceeds her in the amount of average savings-bank accounts per depositor and nearly equals her in the amount of average deposits per inhabitant, while Germany, Austria, Norway, Sweden, Switzerland, and Denmark lead her heavily in the same way. But in actual producing capacity, irrespective of the disposition of the resultant savings, France leads all other countries and constitutes the best example of modern times of what thrift as a national characteristic can accomplish for both the nation and the individual citizen. It is estimated by careful economists and financiers that nearly \$500,000,000 becomes available every year in France for investment, about \$400,000,000 from actual savings out of the profits of human labor, and the balance from probated estates and maturing investments.

This result is directly due to the special character of the French, which finds expression in the conception of the family rather than the individual as the social unit, and in their marvelous capacity for dealing successfully with the smaller things of life. The French constitute a colossal example of the old saying that those who take care of the pennies will find the dollars taking care of themselves. It is impossible to dissociate this feature of French economics from the personality of the nation. It is far more than a mere financial question, and one which might well be taken note of in other countries where complaint is heard of the so-called "high cost of living." And thus the national wealth of France (\$45,000,000,000) is equal to that of Germany, though her population is but 39,000,000 as against Germany's 64,000,000. France's stock of money per capita of the population was about forty-one dollars when last reported (January 1st, 1909), where Germany's was but about twenty-five dollars.

"The French investor must sleep well" is a familiar saying among the Paris bankers. It is a direct reflection from the intention of the average citizen to find his level in life as soon as possible, discover and establish his earning ca-

capacity in it, and so live as to create an actual physical independence for himself, however modest, when a relatively brief working period is done. The individual investor, therefore, prefers a stock or bond which pays three to four per cent. with absolute security to one that pays six or seven per cent. with security under a risk. It is practically impossible to appeal to him on the ground of large returns. The question "Is it good?" must be answered to the last detail. And once he is satisfied, he buys and places the investment in his strong-box and leaves it there until maturity. This is the attitude of the individual, and it manifests itself likewise in the mass and passes straight up through the provincial banks until it appears as the dominating factor in the Paris Bourse and in the operations of such institutions as the Société Générale, with its capital of \$80,000,000 and branches which reach into every town in France and every foreign country.

This habit of the French investor of purchasing a security and putting it away to rest until maturity as one of the permanent foundation-stones of a contented life is of the utmost value to us, and has, I imagine, had much to do with the splendidly successful efforts of prominent bankers to establish a permanent working relationship between the two republics. For it must be evident that if two nations have securities worth several hundred millions exchanged and placed in the hands of one another's citizens who will not only never speculate with them, but will be satisfied to let them remain, perhaps for fifty years, until maturity, for the sake of the annual return in interest or dividends, they have created a mutual and reciprocal asset for their financial stability the importance of which can hardly be overstated. So far as the public and the press are concerned, this is a comparatively new principle in financial science and one which has certainly not come to be appreciated by the mass of people. As was said to me recently in Paris by a very eminent international financier, "The value of it cannot be put too strongly."

III

Italy, an entirely different market, created by utterly different people, remains almost untouched from without by this programme of financial unity. She uses her surplus earnings very largely in developing her home industries,

unlike France, which by comparison has developed industries more slowly than she has accumulated her national savings. The Italians of the dominant classes are much more like Americans than like the French in their attitude toward their savings. Characteristically bold, active, ambitious, and even venturesome, they display, in the handling of their money-supply and of their budget, all the remarkable independence and free courage which has distinguished them since the days when Christopher Columbus broke away from the weaver's shop in Genoa to discover a continent. The Italian is a famous saver, but an extremely liberal spender. In his northern industrial and financial communities he is singularly "American" in his roving energy, and not unlike the English in his "sporting spirit," which enjoys a risk and prompts him to put his earnings into something with a promise of high return even though coupled with a chance of loss. Without this element in the national character Italy could never have accomplished her wonderful rise from the doubtful integrity of her parts, between 1862 and 1873, to her present power as a great producing and purchasing nation with a rapidly accumulating store of gold and with industries expanding at a truly marvelous advance.

But, combined with the intense and increasing demand for home capital in the expansion of domestic industries, this has rendered her less attractive as a market for foreign securities than France. It is probably not too unreserved a forecast to say that well within the present decade Italian industries will have approached something like a turning-point, which is to say a zenith of capacity in a country which is limited in area and population in direct contrast to the almost unlimited energy and genius of its people.

This genius and this energy is as dynamic and expansive in Italy as it is kinetic and well-nigh silent in France. The time will surely come when Italian savings will be more interested than they are now in seeking outside employment. Milan is the money center and is already a positive influence in Continental affairs. The Banca Commerciale, seconded by the Credito Italiano, is one of the great financial organizations of the world, with connections extending into every country. The Bank of Naples is the great factor of the transmission to Italy of the savings of Italians resident in the United States, as much as \$20,000,000 in a year being

brought into the Peninsula through this agency alone. When the time approaches, the stores of surplus capital which Italy will assuredly be capable of producing may very properly seek and find employment in the expanding industries of other nations. And there will be another link in the tremendous chain of common material interest which is binding more closely peoples heretofore widely separated. The refined and lofty sentiment of international political correspondence will have another foundation in substantial fact.

England, as the home of a public in which the speculative instinct is developed to the highest degree, has been much attracted by American stocks and bonds; but the method pursued there is totally different from that which obtains in France, and the difference is based on the widely divergent legal aspects of the case in the two countries as well as on the fact that the English enjoy rapid speculative excitement, while the French do not.

In England practically any security can be sold on a basis as good as that afforded to any other. There is very little control of any kind, and the principle of individual liberty in investment is not limited by government. Shilling rubber shares and government bonds enjoy like privileges.

In France, on the contrary (and generally contrary to the custom obtaining in other countries), the listing of any given security is wholly within the control of government. The *Chambre Syndicale*, or governing board, of the Paris Bourse, which answers to the Board of Governors of the New York Stock Exchange in a general way, is simply the vehicle made use of by the security in getting a hearing before the French Ministry of Finance, and, in the case of a foreign security, also before the Minister of Foreign Affairs. The situation is very much the same as would be produced in America if the Board of Governors of the New York Stock Exchange should be required by law to submit a statement of a security to the Treasury Department and then to the Secretary of State at Washington, together with a petition for authority to list it.

It thus happens, of course, that political considerations of the higher type may possibly enter in and be given weight either for or against a certain stock, and that the barrier so raised is frequently insurmountable by securities which, for one reason or another, are deemed to be inimical to the best French financial and commercial interests; but in the

long run, as seems evident, the public, which is naturally the foundation of every investment enterprise, is afforded an unusual degree of protection. In that this protection acts directly to conserve the great annual accumulation of French savings, it must be maintained that the restrictions are for the general good, which is to say the good both of France and of those other countries which deal with it. Accompanying it are sundry minor regulations which must be complied with and which heighten the protection to the investor and the responsibility of the vendor.

IV

Germany carries her advanced policy of protection to home enterprises straight throughout her whole financial system. The foremost German financiers pay but incidental attention to foreign securities, in spite of the fact that some of their interests of that character are large; and it can hardly be expected that their public will acquire any very extended relation toward us in this regard. Her financial propaganda is devoted too absolutely to assisting the spread of her own commerce and industries at home, and especially in other countries. The making of a German industrial loan abroad means that the money spent in equipment will be paid back again to German factories and syndicates. Moreover, Germany's internal condition is totally different from that of France in that, on the one hand, her population is less devoted to the principle of thrift, and, on the other, her industries are being expanded to such a degree and her foreign connections so extensively developed as to exhaust from within much of her natural annual accumulations of available capital. Russia and Austria are in much the same condition, the former taking her financial lead from France and the latter from the Germans. While in both countries, and particularly in Russia, large sums are being used internally, in France attention is paid to the *accumulations* of thrift more than to the *profits* of ingenuity and speculation.

The German national savings are authoritatively stated to be slightly over \$900,000,000 a year. As I have already said, these funds find very profitable employment in native investments, and especially in German municipal bonds, of which there are many. The German investor is quite willing to accept reasonable risks in the pursuit of a high interest return, and the size of the expected dividend has fre-

quently been a decisive factor in sales of American securities in Germany, quite contrary to the prevailing practice in France. The tendency and volume of German industries are such as to naturally create a fairly high interest rate, and in this respect Germany is in something of the same situation as the United States. The case has at least been sufficiently similar to render Germany comparatively indifferent to American securities. She is a heavy user of foreign money, and has for several years been offering her own securities in outside markets. There is some authority for believing that hopes are entertained for eventually listing German Consols on the Paris Bourse. There remain, of course, some political difficulties in the way of an absolutely perfect accord between Germany and France; but it is interesting to note that French capital flows into Germany already, though indirectly, by way of Switzerland. The *Petit Parisien* for May 21st, 1911, in commenting on the reduced demand for native securities in France, said:

"It is no secret in France that French capital is emigrating, and very rapidly indeed, to Switzerland, and even to Germany."

The point there is that French money can be taken by Swiss bankers through their intimate connections with the Paris market and reloaned to Germany at a profit, while still giving Germany the necessary capital required by her development at a price which she can afford to pay.

Efforts to handle American securities in Germany on a large scale by direct means at Berlin have not succeeded as well as was expected—certainly not anywhere near as well as they have in Paris, where such methods have become thoroughly established.

By a proclamation dated July 4th, 1910, the German Government provided regulations for the admission of securities to quotation on the Stock Exchanges. The Government has thus taken very strict control of this protective system, and the restriction is quite as complete as it is in France.

Holland has been a very positive factor in the development of the American security abroad, and a considerable chapter of financial history might be devoted to that alone. Amsterdam has long taken an active interest in our stocks and supplied a good deal of the money for the early railroad enterprises in the United States. The Amsterdam market still figures as one of the principal centers for the negotia-

tion of American securities in Europe. As in England, governmental regulation is nearly non-existent. The door is open to every sort of offering, and the leading bankers regulate matters for themselves in connection with their financial correspondents in the United States. The volume of Dutch savings is large, and we have drawn upon them liberally in our programme of industrial development. The field is still exceptionally good, but the security must be unquestioned and highly indorsed.

The stock of Dutch money in circulation per capita when last reported (January 1st, 1909) was about twenty-six dollars; and twenty-five dollars for Germany, fourteen dollars for Italy, eighteen dollars for the United Kingdom, forty-one dollars for France, and thirty-six dollars for the United States.

During 1909 and 1910 large issues of American bonds were placed in Europe, a considerable quantity of them going to Paris. London continues to take similar lots now and then, and Brussels has become a fairly attractive market for small parts of lesser industrial issues, which are "peddled" into northern France and Holland to customers of private banking-houses. During the summer of 1911, however, the plan of an international syndicate to establish an agency for important American securities in Brussels came to a head. This group is made up of bankers in both Belgium and the United States. In England particularly there is a group of such comparatively small bankers or "investment companies" who make a business of trading in minor industrial securities. But the French appear to have a special liking for "preference shares," doubtless because of the obvious profit-sharing theory on which they are based.

During 1910 there was visible some tendency to express uneasiness over the trend of American legislation and the application of corporation laws in various of the States. This fear, based on insufficient information and the difficulty, usual in Europe, of perfectly understanding the method by which the members of our Union work together as a coherent whole, was abated without much difficulty, and there was no sign of it in 1911 when certain vital decisions of the United States Supreme Court were rendered. It was then quite clear that a lurking uncertainty as to the stability of institutions, which, like ours, are expanding at a rate that to the European mind seems entirely supernatural, had been dis-

pelled by the patient "missionary" labors of our financiers. The extraordinary liberties of our free press, and the real relation between our laws and our corporations, had been made known and understood. The frank declarations of our great industrial leaders has had a marked effect in elucidating this attitude of the new American men of affairs toward the mighty and not always controllable natural forces under their direction—their high sense of a responsibility beyond all ordinary standards and their more than willingness to have the Government bear the burden of it once the safety of their stockholders is assured. However, by the middle of 1911 it had become obvious in Europe that the Continental market offered but little encouragement to foreign industrial securities excepting those of the highest and absolutely proved class.

V

Certain nations stood thus in 1910:

(Figures in millions.)

Country.	Pop'n.	Wealth.	Revenue.	Expenditure.	Debt.	Per Capita Money Supply.
France	39	\$45,000	\$850	\$850	\$5,900	\$41
Germany	64	45,500	678	678	1,095	25
Holland	6	5,000	73	78	451	26
Italy	32	15,000	453	442	2,602	14
United Kingdom	42	70,000	738	741	3,670	18
United States	90	125,000	884	1,002	1,023	36

To a people as actively occupied as ours are occupied in complex interstate relations, which have until very recently been sufficient as producers of trade and absorbers of capital, but little has been known of the steps which have led up to, and which are still leading up to, a more thoroughly workable understanding among the dominant nations in their money operations.

It was probably during the panic of 1907 that there first came home to us the lack of adequate reciprocation between the greater parts of the complicated mechanism of international finance. It must have dawned on many minds then that something had been overlooked, even as it became apparent that the so-called "panic" had no genuine foundation and came from no adequate physical cause. The fact was, there was practically no harmony between nations and their peoples in finance, such as we have been building up for many years in trade. The very immensity of our possibilities and resources had kept us blind to the need of outside assistance in developing them.

Equally has this state of things been true in our relations with Central and South America. Admittedly essential, as it is, that we share in the interests of our associate American republics, up to a comparatively short time ago we exercised but little influence in financing their enterprises or in assisting them in making the loans necessary to their prosperity. For this and a considerable part of their trade they formed the habit of going to the Continent of Europe. Argentina in 1910 gave twice as much trade to Germany and England as she did to us. French capital built the dock system at Rio de Janeiro. The British have constructed the Brazilian battleships and the Peruvian liners which will operate from the west coast through the Panama Canal to Atlantic ports.

This inability to see with sufficient breadth of vision the true relation between finance and trade, on the one hand, and political and social development on the other, goes back many years. It is still easily recalled by European bankers how no one believed in the stability and depth of American resources (excepting cotton) during our Civil War. I personally remember one patriotic American, then a resident of Europe, who doggedly held to his promise to buy any American security offered to him by foreign holders during days when the Union was supposed to be doomed, and who awoke, one morning in 1865, to find himself much more than a millionaire in "gilt-edged" securities, some of which he told me he had purchased for ten cents on the dollar.

Nor was much more known or appreciated among the European people themselves of the resources of one another. Scientific international finance, as the greatest of professions, was in its infancy. The general view even of the foremost bankers was confined and narrow in 1864, but four years later began the political crisis which terminated in the Franco-Prussian War and in the exaction by Germany of Bismarck's colossal indemnity of a thousand million dollars. That France could meet such a burden without a condition of practical bankruptcy extending over many years was believed by no one in Europe at the time, and the utmost astonishment was expressed when a company undertook to finance it. The world knows how the gigantic penalty was arranged for in the course of a mere few weeks, but even in the thrill of wonder which possessed financial interests everywhere there was but little understanding of the main cause underlying the action.

Underneath there has been at work a mighty but perfectly simple principle of higher economics—the principle of demand and supply in capital, which differs in no way whether applied to money or to goods. The aim apparently has been to create, by the use of sterling securities of the most assured quality, the groundwork for a permanent freedom of interchange between European money anxiously seeking profitable occupation and American securities representing the larger branches of our industries. It is thoroughly clear that this task has not been easy. Years have been required for it, and an infinite patience in smoothing the way with copious information upon the resources of America, and in building up the assurances, moral as well as legal, upon the character of our national assets. In consequence, for the first time there has been created a genuine knowledge and appreciation of the true extent and indestructibility of our commercial prosperity—that exposition of natural resources and self-containedness which is equaled nowhere else on earth.

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